



INSTRUCTIONS

2008

KENTUCKY CORPORATION INCOME TAX AND LIMITED LIABILITY ENTITY TAX (LLET) RETURN

PURPOSE OF INSTRUCTIONS

These instructions have been designed for corporations, other than S corporations, which are required by law to file a Kentucky Corporation Income Tax and LLET Return. Any corporation electing S corporation treatment in accordance with Sections 1361(a) and 1362(a) of the Internal Revenue Code must use Form 720S and related schedules (also available from the Department of Revenue).

Refer to the chart on page 3 to determine what corporation income tax form your business needs to file.

HOW TO OBTAIN FORMS AND INSTRUCTIONS

Forms and instructions are available at all Kentucky Taxpayer Service Centers (page 16). They may also be obtained by writing FORMS, Department of Revenue, 501 High Street, Frankfort, KY 40620, or by calling (502) 564-3658. Forms can be downloaded from www.revenue.ky.gov.

KENTUCKY TAX LAW CHANGES

2007 Second Special Session of the Kentucky General Assembly

HB 1—Provisions effective for tax years beginning on or after January 1, 2008

Biodiesel Credit—A biodiesel producer, biodiesel blender, or renewable diesel producer shall be eligible for a nonrefundable tax credit against taxes imposed by KRS 141.020, or 141.040 and KRS 141.0401 in an amount certified by the department. The credit rate shall be \$1 per biodiesel gallon produced by a biodiesel producer, \$1 per gallon of biodiesel used in the blending process by a biodiesel blender, and \$1 per gallon of renewable diesel produced by a renewable diesel producer not to exceed an annual cap for all producers and blenders of \$5 million for calendar year 2008. A producer or blender must produce the biodiesel, renewable diesel, or blended biodiesel at a location in this Commonwealth to qualify for the tax credit.

“Biodiesel” means a renewable, biodegradable, mono alkyl ester combustible liquid that is derived from agriculture crops, agriculture plant oils, agriculture residues, animal fats, or waste products that meet current American Society for Testing and Materials specification D6751 for biodiesel fuel (B100) blend stock distillate fuels. “Blended biodiesel” means a blend of biodiesel with petroleum diesel so that the percentage of biodiesel in the blend is at least 2% (B2 or greater). “Renewable diesel” means a renewable, biodegradable, non-ester combustible liquid that: (a) Is derived from biomass resources as defined in KRS 152.715(4); and (b) Meets the current American Society for Testing and Materials Specification D396 for fuel oils intended for use in various types of fuel-oil-burning equipment, D975 for diesel fuel oils suitable for various types of diesel fuel engines, or D1655 for aviation turbine fuels.

Cellulosic Ethanol Credit—A cellulosic ethanol producer shall be eligible for a nonrefundable tax credit against taxes imposed by KRS 141.020, or 141.040 and KRS 141.0401 in an

amount certified by the department. The credit rate shall be \$1 per cellulosic ethanol gallon produced by a cellulosic ethanol producer not to exceed an annual cap for all producers of \$5 million. If the total ethanol credit does not exceed the annual cap for that program, then the unused cap may be used to increase the annual cellulosic ethanol credit cap.

“Cellulosic ethanol” means ethyl alcohol for use as a motor fuel that meets the current American Society for Testing and Materials specification D4806 for ethanol that is produced from cellulosic biomass materials of any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis: (a) Plant waste from industrial processes such as sawdust and paper pulp; (b) Energy crops grown specifically for fuel production such as switchgrass; or (c) Agriculture plant residues such as corn stover, rice hulls, sugarcane, and cereal straws. A “cellulosic ethanol producer” means an entity that uses cellulosic biomass materials to manufacture cellulosic ethanol at a location in this Commonwealth.

Ethanol Credit—An ethanol producer shall be eligible for a nonrefundable tax credit against taxes imposed by KRS 141.020, or 141.040 and KRS 141.0401 in an amount certified by the department. The credit rate shall be \$1 per ethanol gallon produced by an ethanol producer not to exceed an annual cap for all producers of \$5 million. If the total cellulosic ethanol credit does not exceed the annual cap for that program, then the unused cap may be used to increase the annual ethanol credit cap.

“Ethanol” means ethyl alcohol produced from corn, soybeans, or wheat for use as a motor fuel that meets the current American Society for Testing and Materials specification D4806 for ethanol. An “ethanol producer” means an entity that uses corn, soybeans, or wheat to manufacture ethanol at a location in this Commonwealth.

2008 Regular Session of the Kentucky General Assembly

Interest Rate for Tax Liabilities and Refunds (Effective May 1, 2008)—Amends KRS 131.183 to provide that the Commissioner of the Department of Revenue shall adjust the tax interest rate not later than November 15 of each year if the adjusted prime rate charged by banks during October of that year, rounded to the nearest full percent, is at least one (1) percentage point more or less than the tax interest rate which is then in effect. The adjusted tax interest rate shall become effective on January 1 of the succeeding year. Beginning on May 1, 2008, all taxes payable to the Commonwealth that have not been paid shall accrue interest at the rate set by the Commissioner plus two percent (2%), and any overpayment as defined in KRS 134.580 shall accrue interest at the rate set by the Commissioner minus two percent (2%).

Also amends KRS 131.183 and sections of KRS Chapter 141 to provide that interest on refunds shall begin to accrue sixty (60) days after the later of: (a) The due date of the return; (b) The

date the return was filed; (c) The date the tax was paid; (d) The last day prescribed by law for filing the return; or (e) The date an amended return claiming a refund is filed.

Creates a new subsection of KRS 141.160 to provide that tax returns of cooperatives as described in Section 521 and 1381 of the Internal Revenue Code or by KRS Chapter 272 shall be filed on or before the fifteenth day of the ninth month following the close of the tax year. **(HB 704)**

Apportionment of Income (Effective for years beginning on or after January 1, 2008)—Creates a new section of KRS Chapter 141 to provide that for purposes of apportioning income: (a) The net gain from the disposal of “liquid assets” that produce business income shall be included in the numerator and denominator of the sales factor; and (b) Passenger airlines shall use “revenue passenger miles” as provided by 14 C.F.R. Part 241 to allocate aircraft to the numerator of the property factor, compensation paid to flight personnel to the numerator of the payroll factor, and transportation revenues to the numerator of the sales factor. **(HB 258)**

FILING FORM GUIDE

Type of Entity	Kentucky Form and Tax		
	Form Required	Corporation Income Tax	LLET
1. C corporation	720	Yes	Yes
2. C corporation (consolidated group as provided by KRS 141.200(4))	720	Yes	Yes
3. C corporation (nexus consolidated group as provided by KRS 141.200 (9) to (14))	720	Yes	Yes
4. Publicly traded partnership (taxed as a corporation for federal income tax purposes)	720	Yes	Yes
5. S corporation	720S	Yes *	Yes
6. Single member limited liability company whose single member is an individual	725	No	Yes
7. Limited liability company (two or more members)	765	No	Yes
8. Limited partnership	765	No	Yes
9. Limited liability partnership	765	No	Yes
10. General partnership	765-GP	No	No
11. Publicly traded partnership (taxed as a partnership for federal income tax purposes)	765-GP	No	No

*** If the S corporation has built-in gains, passive investment income or installments of tax on the recapture of LIFO benefits as provided by KRS 141.040(14), corporation income tax is due.**

IMPORTANT

Corporations must create a Kentucky Form 4562 and Schedule D by converting federal forms.

Depreciation, Section 179 Deduction and Gains/Losses From Disposition of Assets—For taxable years beginning after December 31, 2001, Kentucky depreciation and Section 179 deduction are determined in accordance with the IRC in effect on December 31, 2001. For calendar year 2008 returns and fiscal year returns that begin in 2008, any corporation income taxpayer that elects any of the following will have a different depreciation or Section 179 expense deduction for Kentucky purposes than for federal purposes:

- 30 percent bonus depreciation allowance;
- 50 percent bonus depreciation allowance;
- additional Section 179 deduction for New York Liberty Zone Property;
- additional depreciation and Section 179 deduction for Gulf Opportunity Zone Property; or
- increased Section 179 deduction from \$25,000 to \$250,000.

If any of the above federal/Kentucky differences exist, the differences will continue through the life of the assets. There will be recapture and basis differences for Kentucky and federal income tax purposes until the assets are sold or fully depreciated.

Important: If the corporation has not taken the 30 percent special depreciation allowance, the 50 percent special depreciation allowance, the additional Section 179 deduction for New York Liberty Zone Property, or the increased Section 179 deduction for federal income tax purposes on any assets for which a depreciation deduction is being claimed for the taxable year, then no adjustment will be needed for Kentucky income tax purposes. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be submitted with Form 720 to verify that no adjustments are required.**

Determining and Reporting Depreciation and Section 179 Deduction Differences—Federal/Kentucky depreciation or Section 179 deduction differences shall be reported as follows:

1. The depreciation from federal Form 1120, Line 20 and depreciation claimed on Schedule A or elsewhere on Form 1120 must be included on Form 720, Part II, Line 4. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached to Form 720.**
2. Convert federal Form 4562 to a **Kentucky** form by entering **Kentucky** at the top center of the form above Depreciation and Amortization. Compute Kentucky depreciation and Section 179 deduction in accordance with the IRC in effect on December 31, 2001, by ignoring the lines and instructions regarding the special depreciation allowance and the additional Section 179 deduction. **NOTE:** For Kentucky

purposes, the maximum Section 179 deduction amount on Line 1 is \$25,000 and the threshold cost of Section 179 property on Line 3 is \$200,000. The \$25,000 maximum allowable Section 179 deduction for Kentucky purposes is reduced dollar-for-dollar by the amount by which the cost of qualifying Section 179 property placed in service during the year exceeds \$200,000. In determining the Section 179 deduction for Kentucky, the income limitation on Line 11 should be determined by using Kentucky net income before the Section 179 deduction instead of federal taxable income.

3. The corporation **must attach the Kentucky converted Form 4562** to Form 720, and the amount from Kentucky converted Form 4562, Line 22 must be included on Form 720, Part II, Line 14. A Kentucky converted Form 4562 must be filed for each year even though a federal Form 4562 may not be required.

Determining and Reporting Differences in Gain or Loss From Disposition of Assets—If during the year the corporation disposes of assets on which it has taken the special depreciation allowance or the additional Section 179 deduction for federal income tax purposes, the corporation will need to determine and report the difference in the amount of gain or loss on such assets as follows:

1. If a capital gain is reported on federal Form 1120, Line 8; enter this amount on Schedule O-720, Part II, Line 1. Convert **federal Schedule D (Form 1120)** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky capital gain from the disposal assets using Kentucky basis. Enter the capital gain from Kentucky converted Schedule D (Form 1120), Line 14 on Schedule O-720, Part I, Line 1. **Federal Schedule D (Form 1120) filed with the federal return and the Kentucky converted Schedule D must be attached to Form 720.**
2. If the amount reported on federal Form 1120, Line 9 (from Form 4797, Line 17) is a gain; enter this amount on Schedule O-720, Part II, Line 2. If the amount reported on Form 1120, Line 9 (from Form 4797, Line 17) is a loss; enter this amount on Schedule O-720, Part I, Line 2. Convert **federal Form 4797** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky gain or (loss) from the sale of business property listing Kentucky basis. If the amount on Kentucky converted Form 4797, Line 17 is a gain; enter this amount on Schedule O-720, Part I, Line 3. If the amount on Kentucky converted Form 4797, Line 17 is a loss; enter this amount on Schedule O-720, Part II, Line 3. **Federal Form 4797 filed with the federal return and the Kentucky converted Form 4797 must be attached to Form 720.**

GENERAL INFORMATION

Internal Revenue Code Reference Date—Effective for taxable years beginning after December 31, 2006, Kentucky Revised Statute (KRS) 141.010(3) was amended to define "Internal Revenue Code" (IRC) for Kentucky income tax purposes to mean the IRC in effect on December 31, 2006, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2006, that would otherwise terminate and as modified by KRS 141.0101. For property placed in service after September 10, 2001, only the depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date shall apply. **KRS 141.010(3)**

Kentucky Tax Registration Application—Prior to doing business in Kentucky, each corporation should complete a Kentucky Tax Registration Application, Revenue Form 10A100 to register for a Kentucky Corporation/LLET Account Number. This account number will be used for remitting the corporation income tax as required per KRS 141.040 and the LLET as required per KRS 141.0401. The application is available at Kentucky Taxpayer Service Centers (see page 18) or from the Department of Revenue, Taxpayer Registration Section, Frankfort, KY 40620 or at www.revenue.ky.gov (click on Business). The application may be faxed to (502) 227-0772.

Who Must File—LLET and Corporation Income Tax

LLET—The limitations imposed and protections provided by the United States Constitution or Pub. L. No. 86-272 do not apply to the tax imposed by KRS 141.0401. A Kentucky Corporation Income Tax and LLET Tax Return, Form 720, must be filed by every corporation (a) organized under the laws of this state; (b) having its commercial domicile in this state; (c) owning or leasing property in this state; (d) having one or more individuals performing services in this state; (e) maintaining an interest in a pass-through entity doing business in this state; (f) deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust doing business in this state, or deriving income directly or indirectly from a single member limited liability company that is doing business in this state and is disregarded as an entity separate from its single member for federal income tax purposes; or (g) directing activities at Kentucky customers for the purposes of selling them goods or services. **KRS 141.0401 and KRS 141.010(25)**

Corporation Income Tax—Except for the limitations imposed and protections provided by the United States Constitution or Pub. L. No. 86-272, a Kentucky corporation income tax and LLET return must be filed by every corporation meeting the provisions listed above. **KRS 141.040 and KRS 141.010(25)**

Disregarded Entities—A limited liability company (LLC) is treated for Kentucky LLET and income tax purposes in the same manner as it is treated for federal income tax purposes. Therefore, a single member LLC that is disregarded for federal income tax purposes shall be included in the return filed by its single member (parent entity). **KRS 141.010(25), KRS 141.200(10) and Regulation 103 KAR 16:300**

Pass-through Entities—Corporations doing business in Kentucky solely as a partner or member in a pass-through entity will file Form 720 pursuant to the provisions of KRS 141.010, 141.120 and 141.206.

Other Entities—Foreign Sales Corporations (FSCs) and interest-deferred or interest-charged Domestic International Sales Corporations (DISCs) are subject to Kentucky income tax to the same extent as other corporations.

Additionally, certain organizations which must file special returns for federal purposes, e.g., homeowners associations, political organizations, real estate investment trusts and regulated investment companies must file Form 720. Only political organizations filing a federal Form 1120POL must file Form 720.

Corporations Not Required to File—Corporations which are exempt by law from Kentucky income tax and LLET include financial institutions as defined in KRS 136.500, insurance companies, savings and loan associations, corporations exempted by IRC Section 501, and religious, educational, charitable and like corporations not conducted for profit. **KRS 141.040 and KRS 141.0401**

Required Forms and Information—Each corporation must enter all applicable information on Form 720, attach a schedule for each line item or line item instruction which states "attach schedule," and Kentucky forms or schedules, if applicable.

Substitute Forms—Any form to be used in lieu of an official Department of Revenue form must be submitted to the department for prior approval.

Required Federal Forms and Schedules

All corporations **must** provide a copy of the following federal forms submitted to the Internal Revenue Service:

1. Form 1120, all pages —If Form 1120 is not filed, attach copies of the income statement, cost of goods sold schedule and balance sheet of the federal form filed. If the corporation is not required to submit a balance sheet for federal income tax purposes, attach the balance sheet prepared on a consistent basis from the books and records of the corporation.
2. Form 851— Affiliations Schedule
3. Form 4797— Sales of Business Property
4. Schedule D— Capital Gains and Losses
5. Form 3800— General Business Credit
6. Form 5884— Work Opportunity Credit
7. Schedules for items on Form 1120, Schedule L, which state "attach schedule."

Electronic Funds Transfer (EFT)—LLET estimated tax payments are not permitted by EFT. The Department of Revenue is accepting electronically filed Corporation Income/Limited Liability Entity Tax estimated tax voucher payments **only** for corporation income tax. Before filing by EFT, the corporation must have a valid Kentucky Corporation/LLET account number which is a six-digit number and have registered with the Department of Revenue to file EFT. Using an incorrect account number such as withholding or sales and use tax will result in the payment being credited to another corporation's account. For more information contact the Department of Revenue at 1-800-839-4137 or (502) 564-6020. The EFT registration form is available at www.revenue.ky.gov. See E-Filing and Payment Options (click on KY E-Tax) located in the upper right-hand corner. The direct link is www.revenue.ky.gov/etax.htm.

EFT is not available for a corporation's LLET estimated tax payments, return payment or extension payment.

Accounting Procedures—Kentucky income tax law requires a corporation to report income on the same calendar or fiscal year and to use the same methods of accounting required for federal income tax purposes. Any federally approved change in accounting periods or methods must be reported to the Department of Revenue. Attach a copy of the federal approval to the return when filed. **KRS 141.140**

Mailing/Payment—If including payments for other taxes in addition to corporation income tax or LLET, **send a separate check or money order for each type of tax.** Mail the Kentucky Corporation Income Tax and LLET Return to the **Kentucky Department of Revenue, Frankfort, KY 40620.** Make the check(s) payable to the **Kentucky State Treasurer.**

Filing/Payment Date—A Kentucky Corporation Income Tax and LLET Return must be filed and payment must be made on or before the 15th day of the fourth month following the close of the taxable year. **KRS 141.160, KRS 141.220 and Regulation 103 KAR 15:050**

If the filing/payment date falls on a Saturday, Sunday or a legal holiday, the filing/payment date is deemed to be on the next business day. **KRS 446.030(1)(a)**

Extensions—An extension of time to file a Kentucky Corporation Income Tax and LLET Return may be obtained by either making a specific request to the Department of Revenue or attaching a copy of the federal extension to the return when filed. A copy of the federal extension submitted after the return is filed does not constitute a valid extension, and late filing penalties will be assessed. If a payment is made with an extension, Kentucky Form 41A720SL must be used. For further information, see the instructions for Form 41A720SL. **Regulation 103 KAR 15:050**

NOTE: An extension of time to file a return does not extend the date for payment of tax.

Corporation Estimated Taxes

The Corporation Income/Limited Liability Entity Estimated Tax Voucher, Form 720-ES, is used to submit estimated tax payments for corporation income and LLET. See **Electronic Funds Transfer (EFT)** on page 5. If the corporation is required to make estimated tax payments but did not receive Form 720-ES, contact the Department of Revenue at (502) 564-3658 or visit **www.revenue.ky.gov.**

NOTE: See **www.revenue.ky.gov** for information on the 2009 estimated tax payments.

Corporation Estimated Tax Payments—Estimated tax payments must be made by each corporation whose income tax and LLET liability for the taxable year can reasonably be expected to exceed \$5,000. The first estimated tax payment must be made by the 15th day of the 6th month of the taxable year. To determine the amount of the first payment, subtract \$5,000 from the estimated full-year tax liability, and divide the result by two. The remaining one-half is due in equal installments on the 15th day of the 9th and 12th month, respectively.

Failure to pay estimated tax installments equal to the amount determined by first subtracting \$5,000 from 70 percent of the total tax due under KRS 141.040 and computed by the taxpayer on the return filed for the taxable year will result in the assessment of an underpayment penalty. The amount of the penalty is 10 percent of the amount of the underpayment, but not less than \$25. Form 2220-K, Underpayment of Estimated Income Tax by Corporations, must be attached. **KRS 131.180(3), KRS 141.990(3) and Regulation 103 KAR 15:050**

Corporation Estimated Tax—Safe Harbor—Every corporation subject to taxation under KRS 141.040 and/or KRS 141.0401 shall make a declaration of estimated tax and must pay installments if the taxes imposed by KRS 141.040 and/or KRS 141.0401 for the taxable year can reasonably be expected to exceed \$5,000. A corporation that has a prior year income tax liability less than or equal to \$25,000 and fails to make estimated payments equal to its prior year income tax liability **or** has a prior year income tax liability greater than \$25,000 and fails to pay at least 70 percent of the income tax liability less \$5,000 will be

subject to a penalty of 10 percent of any underpayment of any installment. **KRS 141.042, KRS 141.044(1) and KRS 141.990**

Amended Return—Amended Kentucky forms must be used to make any corrections to Form 720 (See table below for required amended form), including net operating loss carrybacks (for years prior to 2005), capital loss carrybacks and Internal Revenue Service audit adjustments. Do not submit Federal Form 1139 to apply for a refund of Kentucky corporation income tax resulting from net operating loss carryback or a capital loss carryback. Failure to submit the required Kentucky amended forms will result in delays in processing refunds requested on amended returns.

Tax Year	Amended Form
2004 & prior	720X
2005 & 2006	720-Amended
2007 & 2008	720-Amended (2007-2008)

Net Operating Losses—For tax years beginning on or after January 1, 2005, the net operating loss carryback deduction shall not be allowed. Any net operating losses shall be carried forward. See Kentucky Net Operating Loss Deduction on page 10 of these instructions for further discussion.

Internal Revenue Service Audit Adjustments—A corporation which has received final adjustments resulting from Internal Revenue Service audits must submit a copy of the “final determination of the federal audit” within 30 days of the conclusion of the federal audit. Use the required amended form from the table above for reporting federal audit adjustments and computing additional tax due or refunds. Failure to submit the required amended form will result in delays in processing refunds requested on amended returns. Any refund claim resulting from a federal audit adjustment must be filed within the four years of the date the tax was paid or within six months of the conclusion of the federal audit, whichever is later. **KRS 141.210(2)(d) and KRS 141.235(2)(b)**

Interest—Interest at the tax interest rate plus two percent is applied to corporation income tax and LLET liabilities not paid by the date prescribed by law for filing the return (determined without regard to extensions thereof). The tax interest rate for 2009 is available online at **www.revenue.ky.gov,** or you may contact the Department of Revenue at (502) 564-8139.

Penalties

Failure to file the Kentucky Corporation Tax and LLET Return by the filing date including extensions—2 percent of the tax due for each 30 days or fraction thereof that the return is late (maximum 20 percent). The minimum penalty is \$10 for each tax. **KRS 131.180(1)**

Jeopardy Fee—A \$100 minimum penalty on all nonfiled returns, when the taxpayer fails to file a return or provide information after being requested to do so by the Department of Revenue. **KRS 131.150(2)**

Failure to pay income tax and/or LLET tax by the payment date—2 percent of the tax due for each 30 days or fraction thereof that the payment is overdue (maximum 20 percent). The minimum penalty is \$10 for each tax. **KRS 131.180(2)**

Late payment or underpayment of estimated tax—10 percent of the late payment or underpayment. The minimum penalty is \$25. **KRS 131.180(3)**

Failure or refusal to file a Kentucky Corporation Income Tax and LLET Return or furnish information requested in writing—5 percent of the tax assessed for each 30 days or fraction thereof that the return is not filed or the information is not submitted (maximum 50 percent). The minimum penalty is \$100. **KRS 131.180(4)**

Negligence—10 percent of the tax assessed. **KRS 131.180(7)**

Fraud—50 percent of the tax assessed. **KRS 131.180(8)**

Cost of Collection Fees

- (a) 25 percent on all taxes which become due and owing for any reporting period, regardless of when due. These collection fees are in addition to all other penalties provided by law. **KRS 131.440(1)(a)**
- (b) 25 percent on all taxes assessed and collected by the Department of Revenue for taxable periods ending before December 1, 2001. **KRS 131.440(1)(b)**
- (c) 50 percent of any tax deficiency assessed after the amnesty period for nonfiled returns eligible for amnesty. **KRS 131.440(1)(c)**

Records Retention—The Department of Revenue deems acceptable virtually any records retention system which results in an essentially unalterable method of records storage and retrieval, provided: (a) authorized Department of Revenue personnel are granted access, including any specialized equipment; (b) taxpayer maintains adequate back-up; and (c) taxpayer maintains documentation to verify the retention system is accurate and complete.

FORM 720—SPECIFIC INSTRUCTIONS

Period Covered

File the 2008 return for calendar year 2008 and fiscal years that begin in 2008. For a fiscal year, fill in the taxable period beginning and ending at the top of Form 720.

All corporations must enter the Taxable Year Ending at the top right of Form 720 and supporting forms and schedules to indicate the ending month and year for which the return is filed.

- A calendar year is a period from January 1 through December 31 each year. This would be entered as:

$$\frac{1}{\text{Mo.}} \frac{2}{\text{Yr.}} / 08$$

- A fiscal year is 12 consecutive months ending on the last day of any month except December. A fiscal year ending January 31, 2009, would be entered as:

$$\frac{0}{\text{Mo.}} \frac{1}{\text{Yr.}} / 09$$

- A 52/53-week year is a fiscal year that varies between 52 and 53 weeks. *Example:* A 52/53-week year ending the first week of January 2009, would be entered as:

$$\frac{1}{\text{Mo.}} \frac{2}{\text{Yr.}} / 08$$

Failure to properly reflect the **Taxable Year Ending** may result in delinquency notices or billings for failure to file.

LLET and Income Tax Filing Status

Caution: A corporation is required to file a separate entity income tax return unless for any part of the taxable year it is a member of an affiliated group electing to file a consolidated return in accordance with KRS 141.200(2) or for periods beginning on or after January 1, 2005, is required to file a consolidated return in accordance with KRS 141.200(10).

Item A—Enter the six-digit Kentucky Corporation/LLET Account Number on the applicable line at the top of each form and schedule and on all checks and correspondence. This number was included in correspondence received from the Department of Revenue at the time of registration.

If the account number is not known, telephone (502) 564-8139.

Item B—Check the box indicating the method used in determining the amount of LLET due on the Schedule LLET, Section D, Line 1.

LLET Nonfiling Status Code—Return Not Required

If the corporation is not required to file an LLET return, enter one of the following two-digit codes in the space provided.

REASON CODE	Reason
10	A public service corporation subject to tax under KRS 136.120.
11	An open-end registered investment company organized under the laws of this state and registered under the Investment Company Act of 1940.
12	A property or facility which has been certified as a fluidized bed energy production facility as defined in KRS 211.390.
13	An alcohol production facility as defined in KRS 247.910.
14	A real estate investment trust as defined in Section 856 of the Internal Revenue Code.
15	A captive real estate investment trust as defined in KRS 141.010(29).
16	A regulated investment company as defined in Section 851 of the Internal Revenue Code.
17	A real estate mortgage investment conduit as defined in Section 860D of the Internal Revenue Code.
18	A personal service corporation as defined in Section 269A(b)(1) of the Internal Revenue Code.
19	A cooperative described in Sections 521 and 1381 of the Internal Revenue Code, including farmers' agricultural and other cooperatives organized or recognized under KRS Chapter 272, advertising cooperatives, purchasing cooperatives, homeowners associations including those described in Section 528 of the Internal Revenue Code, political organizations as defined in Section 527 of the Internal Revenue Code, and rural electric and rural telephone cooperatives.

Item C—If the corporation is required to file a consolidated Kentucky corporation income tax return, check the applicable box. (See instructions below.)

Election Made Prior to 2005—Check this box if the corporation is the common parent of an affiliated group filing a consolidated income tax return. KRS 141.200(4) allows an affiliated group to elect to file a consolidated Kentucky income tax return with the election being binding for eight years. **Form 722, Election to File Consolidated Kentucky Corporation Income Tax Return, must be submitted to the Department of Revenue with the return timely filed for the first taxable year for which the election is made.** The election must be made by the common parent corporation on behalf of all members of the affiliated group. **A copy of the original Form 722 must be submitted for all subsequent years for which the election is effective.** "Affiliated group" means affiliated group as defined in Section 1504(a) of the IRC and related regulations. If a consolidated return is filed, a copy of federal Form 851, Affiliations Schedule, and Kentucky Form 851-K, Kentucky Affiliations and Payment Schedule, must be attached. **KRS 141.200, Regulation 103 KAR 16:200**

If the eight-year election has expired, a corporation is required to file a separate entity income tax return unless the corporation is

required to file a nexus consolidated return in accordance with **KRS 141.200(10).**

KRS 141.200(15)(a) prohibits affiliated corporations from filing a combined Kentucky corporation income tax return using the unitary business concept.

Mandatory Nexus—Check this box if the corporation is required to file a consolidated return under the provisions of KRS 141.200(10). The consolidated return will consist of the common parent that is doing business in this state and the includible corporation(s) that do business in this state. **KRS 141.200**

Caution: Be advised that an election to file a consolidated Kentucky corporation income tax return in accordance with KRS 141.200(3) is binding irrespective of KRS 141.200(10).

Income Tax Nonfiling Status Code—Return Not Required

If the corporation is not required to file a Kentucky corporation income tax return, enter the following two-digit code in the space provided.

REASON CODE	Reason
22	This return contains only the LLET as the corporation is exempt from income tax as provided by Public Law 86-272.

Item D—Enter the corporation's Federal Identification Number. See federal Publication 583 if the corporation has not obtained this number.

Name and Address—Print or type the corporation's name as set forth in the charter. For the address, include the suite, room or other unit number after the street address. If the U.S. Postal Service does not deliver mail to the street address and the corporation has a P.O. Box, show the box number instead of the street address.

Telephone Number—Enter the business telephone number of the principal officer or chief accounting officer signing this return.

North American Industrial Classification System (NAICS)—Enter your six-digit NAICS code. To view a complete listing of NAICS codes, visit the United States Census Bureau at www.census.gov.

Item E—Enter the name and Kentucky Corporation/LLET Account Number of the common parent, if different than the corporation listed in Section D.

Item F—Check the applicable boxes:

- (a) *Initial Return*—This is the corporation's first time filing a corporation income tax return in Kentucky. Complete questions 1, 2 and 3 on Form 720, page 2, Schedule Q, Kentucky Corporation Questionnaire.
- (b) *Final Return*—This is the corporation's final return. The corporation has dissolved or withdrawn. Submit an explanation.
- (c) *Short-period Return*—Submit an explanation for a short-period return that is not an initial return.
- (d) *Change of name*—Check this box if the corporation has changed its name.
- (e) *Change of address*—Check this box if the corporation has changed its address.

PART I—LLET Computation

Line 1—Enter the amount from Schedule LLET, Section D, Line 1.

Line 2—Enter the recycling/composting equipment recapture amount from Schedule RC-R, Line 10. There is no recapture of the recycling/composting equipment credit for LLET purposes if the credit was not taken against LLET in a prior year. **Attach Schedule RC-R, Kentucky Disposition of Recycling or Composting Equipment Schedule.**

Line 3—Enter the total of Lines 1 and 2.

Line 4—Enter the nonrefundable LLET credit from Kentucky Schedule(s) K-1. **Copies of Kentucky Schedule(s) K-1 must be attached to the corporation's tax return in order to claim the credit.**

Line 5—Enter the total tax credits from Schedule TCS, Part III, Column E, Line 1.

Line 6—Enter the greater of Line 3 less Lines 4 and 5 or \$175.

Line 7—Enter the amount of tax withheld on Form PTE-WH. **Form PTE-WH must be attached to the tax return.**

Line 8—Enter the total estimated LLET tax payments made for the taxable year. Do not include the amount credited from the prior year.

Line 9—Enter the amount of LLET paid with Form 41A720SL, Application for Six-Month Extension of Time to File Kentucky Corporation or Limited Liability Pass-Through Entity Return.

Line 10—Enter the amount credited to 2008 from Form 720, Part I, Line 14 of the 2007 return.

Line 11—Enter the 2008 income tax overpayment from Part III, Line 15 credited to the 2008 LLET.

Line 12—If Line 6 is greater than the total of Lines 7 through 11, enter the difference on this line and on the Tax Payment Summary.

Line 13—If Line 6 is less than the total of Lines 7 through 11, enter the difference on this line.

Line 14—Enter the portion of Line 13 to be credited to the 2008 income tax liability on Part III, Line 12.

Line 15—Enter the portion of Line 13 to be credited to 2009.

Line 16—Enter the portion of Line 13 to be refunded (Line 13 less Lines 14 and 15).

PART II—TAXABLE INCOME COMPUTATION

Line 1—Enter the amount of federal taxable income in accordance with the following instructions:

(a) **Separate Entity Kentucky Return/Separate Entity Federal Return**—If this is a separate entity income tax return and the corporation filed a separate entity federal income tax return for the taxable year, enter the amount from Line 28 of Form 1120. **Attach a copy of Form 1120, all pages.**

(b) **Separate Entity Kentucky Return/Consolidated Federal Return**—If this is a separate entity income tax return and the corporation participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the pro forma Form 1120 prepared on a separate entity basis. **Attach a copy of the pro forma Form 1120, all pages.**

(c) **Consolidated Kentucky Return/Consolidated Federal Return, When Taxpayer Made an Election to File a Consolidated Return Prior to 2005**—Attach Schedules CR, CR-C, KCR and KCR-C listing each member of the affiliated group. If this is a consolidated income tax return and the corporations participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the consolidated Form 1120. If the consolidated federal return includes a corporation which is exempt from Kentucky income tax, an adjustment to exclude the income or loss of the corporation must be made on Schedule O-720, Part I, Line 9 or Part II, Line 12. See instructions for Schedule O-720. **Attach a copy of Form 1120, all pages.**

(d) **Consolidated Kentucky Return/Separate Entity Federal Return, When Taxpayer Made an Election to File a Consolidated Return Prior to 2005**—Attach Schedules CR, CR-C, KCR and KCR-C listing each member of the affiliated group. If this is a consolidated income tax return and no member of the affiliated group participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of Schedule CR prepared on a consolidated basis including all members of the affiliated group as defined in Section 1504(a) of the IRC and related regulations excluding any corporation exempt from Kentucky income tax.

(e) **Mandatory Nexus Consolidated Return**—Attach Schedules CR, CR-C, KCR and KCR-C listing each member of the affiliated group. Enter the amount from Line 28 of Schedule CR prepared on a consolidated basis including all members of the affiliated group as defined in KRS 141.200(9).

Attach to Form 720 an organizational flow chart showing ownership percentage and indicating which entities have Kentucky nexus.

Caution: Be advised that an election to file a consolidated Kentucky corporation income tax return in accordance with KRS 141.200(3) is binding irrespective of KRS 141.200(10).

Special Returns—If the corporation is an organization which filed a special return for federal purposes (e.g., 1120H, 1120POL), enter the amount from the line on the special return which is comparable to Line 28 (Form 1120), federal taxable income. **Attach all pages of form comparable to all the pages of Form 1120.**

REIT Returns—Enter the amount from Line 22, Form 1120-REIT adjusted to add back any net operating loss deduction reflected on Line 21a, Form 1120-REIT.

Additions to Federal Taxable Income—Lines 2 through 9 itemize items of additional taxable income or unallowable deductions which are differences between federal taxable income and Kentucky taxable net income.

Line 2—Enter interest income from obligations of states other than Kentucky and the political subdivisions of states other than Kentucky. **KRS 141.010(12)(c)**

Line 3—Enter state taxes measured in whole or in part by gross or net income. "State" means any state of the United States, the District of Columbia, the commonwealth of Puerto Rico, any territory or possession of the United States or any foreign country or political subdivision thereof. Attach a schedule itemizing the total taxes deducted on Form 1120. **KRS 141.010(13)(a)**

Line 4—See instructions on page 4 regarding depreciation and Section 179 deduction differences, and if applicable, include the amount from Line 20 of federal Form 1120. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached.**

Line 5—Enter deductions attributable to income which is exempt from taxation. Any expense related directly or indirectly to the acquisition, management or disposition of assets, the income from which is exempt, is not deductible. The related expense adjustment is required regardless of whether any income was actually received or accrued during the taxable year. Attach a schedule. **KRS 141.010(13)(d) and Regulation 103 KAR 16:060**

Line 6—Enter intangible expenses, intangible interest expense, management fees and other related party expenses directly or indirectly paid, accrued or incurred to, or in connection directly or indirectly with one or more direct or indirect transactions with one or more related members of an affiliated group or with a foreign corporation. **KRS 141.205 and Regulation 103 KAR 16:230**

Certain deductions relating to transactions with one or more related members of an affiliated group may be disallowed unless:

1. the corporation and the related member are included in the same consolidated Kentucky corporation income tax return for the relevant taxable year;
2. a disclosure is made and evidence provided to establish that the transaction was at arm's length, that the payment made to a related member was subject to income tax in another jurisdiction, or the related member has substantial business activities other than the management or ownership of intangible property;
3. a disclosure is made and evidence provided that the recipient regularly engages in transactions with one or more unrelated parties on terms identical to that of the subject transactions; or
4. the Department of Revenue and taxpayer agree in writing to an alternative method of apportionment. A copy of the agreement must be submitted with each applicable return.

Line 7—Enter the amount of dividend-paid deduction of a captive real estate investment trust. **KRS 141.010(13)(h)**

Line 8—Enter the amount of domestic production activities deduction from Form 1120, Line 25. **Regulation 103 KAR 16:310**

Line 9—Enter the amount from Schedule O-720, Part I, Line 12.

Line 10—Enter the total of Lines 1 through 9.

Subtractions from Federal Taxable Income—Lines 11 through 15 itemize items of income which are excluded or additional deductions allowed which are differences between federal taxable income and Kentucky taxable net income.

Line 11—Enter the amount of interest income from U.S. government bonds or from securities issued by a federal agency or other income exempt from state taxation by the Kentucky Constitution, the United States Constitution or the United States Code. Securities which are merely guaranteed by the U.S. government are not tax-exempt. Attach a schedule listing the type of obligation and the amount of tax-exempt interest. **KRS 141.010(12)(a)**

Line 12—Enter the amount of dividend income from Form 1120. **KRS 141.010(12)(b)**

Line 13—Enter the amount of the work opportunity credit reflected on federal Form 5884. For Kentucky purposes, the corporation may deduct the total amount of salaries and wages paid or incurred for the taxable year. This adjustment does not apply for other federal tax credits.

Line 14—See instructions on page 4 regarding depreciation and Section 179 deduction differences, and if applicable, include the amount from Line 22 of the Kentucky converted Form 4562. **Kentucky converted Form 4562 must be attached.**

Line 15—Enter the amount from Schedule O-720, Part II, Line 18.

Line 16—Subtract Lines 11 through 15 from Line 10.

Line 17—For the mandatory nexus consolidated filers only, enter the amount from Schedule NOL (Form 720), Part I, Section A, Line 7 or 8, as applicable. Line 7 is the current net operating loss disallowed and is added to net income. Enter this amount as a positive. Line 8 is the net operating loss carryforward and is subtracted from net income. Enter this amount as a negative. Separate entity and elective consolidated filers enter -0-. Attach both Schedule NOL and Schedule NOL-CF if using prior year NOL carry forwards.

Line 18—Add Line 16 and Line 17.

Line 19—Enter the amount from Line 18 or the amount on Schedule A, Section II, Line 8, if applicable. A corporation that is taxable in this state and taxable in another state must allocate and apportion income to Kentucky on Schedule A (Form 720), Apportionment and Allocation. See Schedule A instructions for information on the apportionment fraction. **KRS 141.010(14) and KRS 141.120.**

Line 20—If the corporation is filing a mandatory nexus consolidated return, enter zero (-0-). For Kentucky purposes, the same carryforward provisions allowed by IRC Section 172 are applicable for losses incurred in taxable years beginning after December 31, 1979, except that no loss may be carried to a taxable year beginning before January 1, 1980. The amount to be carried forward is the amount of loss determined by KRS Chapter 141 and, in the case of multistate corporations, it is the amount determined after apportionment and allocation. Attach a schedule showing the computation of the net operating loss deduction but do not enter more than the corporation's taxable income. For additional details on carryover rules, see federal Publication 536, Net Operating Losses. Attach Schedule NOL and Schedule NOL-CF if filing an elective consolidated return. **KRS 141.050**

Line 21—Subtract Line 20 from Line 19.

Line 22—Enter the amount of Kentucky domestic production activities deduction from Kentucky Form 8903-K, Line 21.

Line 23—Subtract Line 22 from Line 21.

PART III — INCOME TAX COMPUTATION

Line 1 — Income tax, to compute the liability, apply the following rates:

- (a) 4 percent of the first \$50,000 of taxable net income;
- (b) 5 percent of the amount of taxable net income in excess of \$50,000, but not in excess of \$100,000; and
- (c) 6 percent of the amount of taxable net income in excess of \$100,000.

Short-Period Computation of Income Tax—A corporation filing an income tax return for a period of less than 12 months is required to annualize taxable net income. To annualize, multiply taxable net income computed for the short-period by 365 and divided by the number of days in the short-period. The income tax liability shall be the tax computed on the annualized income multiplied by the number of days in the short-period and divided by 365. **Annualization is not permitted if the return is for the initial or final period of operations. KRS 141.140**

Line 2—Enter the amount of recycling recapture from Schedule RC-R, Disposition of Recycling or Composting Equipment, Line 10. **Schedule RC-R must be attached.**

Line 3—Enter the amount of the Tax Installment on LIFO Recapture. A corporation may be liable for the additional tax due to LIFO recapture under federal Regulations Section 1.1363-2, if the corporation used the LIFO inventory pricing method for its last tax year as a C corporation prior to becoming an S corporation. To determine the LIFO recapture, complete the worksheet below.

1. Kentucky taxable income from Form 720, Part II, Line 23..... _____
2. LIFO recapture amount..... _____
3. Add Lines 1 and 2..... _____
4. Income tax on Line 3..... _____
5. Income tax from Form 720, Part III, Line 1..... _____
6. Line 4 minus Line 5..... _____
7. Tax installment on LIFO Recapture (Line 6 multiplied by 25%) (enter on Line 3)..... _____

Note: See the S corporation's instructions for its reporting requirements.

Line 4—Add the totals for Lines 1 through 3.

Line 5—Enter the amount from Line 8 of the worksheet below. KRS 141.0401(3)(a) provides that the LLET credit allowed a member or partner of a limited liability pass-through entity against tax imposed by KRS 141.040 shall be a member's or partner's proportionate share of the LLET for the current year after the subtraction of the minimum tax of \$175 and any credits identified in KRS 141.0205. The LLET credit allowed shall be applied to income tax assessed on income from the limited liability pass-through entity. Any remaining LLET credit from the limited liability pass-through entity shall be disallowed.

LLET Corporation Income Tax Worksheet

KRS 141.0401(3)(a) provides that the LLET credit allowed a member or partner of a limited liability pass-through entity against tax imposed by KRS 141.040 shall be a member's or partner's proportionate share of LLET for the current year after the subtraction of the minimum tax of \$175 and any credits identified in KRS 141.0205. The LLET credit allowed shall be applied to income tax assessed on income from the limited liability pass-through entity. Any remaining LLET credit from the limited liability pass-through entity shall be disallowed.

Enter on Line 2 of the worksheet below, the Kentucky net distributive share income from the limited liability pass-through entity that is included in the corporation's Kentucky taxable income on Line 1. If the corporation is taxable only in Kentucky, enter the net distributive share income from the Kentucky Schedule K-1. If the corporation is taxable in Kentucky and taxable in another state, enter the net distributive share income from the Kentucky Schedule K-1 multiplied by the corporation's apportionment fraction on Schedule A, Section I, Line 12.

Complete a separate worksheet for each limited liability pass-through entity. **Attach each worksheet to the return and retain a copy for your records.**

Name _____

Address _____

FEIN _____ KY Acct # _____

Percentage of Ownership _____ %

1. Kentucky taxable income, Form 720, Part II, Line 23..... _____
2. Kentucky net distributive share income from Kentucky Schedule K-1 (see instructions above)..... _____
3. Line 1 less Line 2..... _____
4. Income tax from Form 720, Part III, Line 1..... _____
5. Income tax on the amount on Line 3..... _____
6. Line 4 less Line 5. If Line 5 is greater than Line 4, enter -0-..... _____
7. Nonrefundable LLET credit from Kentucky Schedule K-1 (Form 765 or Form 765-GP)..... _____
8. Lesser of Line 6 or Line 7, enter here and on Form 720, Part III, Line 5..... _____

Line 6—Enter the amount from Part I, Line 6 less \$175.

Line 7—Enter total credits from Kentucky Schedule TCS, Part III, Column F, Line 2.

Line 8—Enter the amount of Line 4, less Lines 5 through 7, but not less than zero.

Line 9—Enter the total of estimated income tax payments made for the taxable year. Do not include the amount credited from the prior year.

Line 10—Enter the total of income tax paid with Form 41A720SL, Application for Six-Month Extension of Time to File Kentucky Corporation or Limited Liability Pass-Through Entity Return.

Line 11—Enter the amount credited to 2008 from Part III, Line 16 of the 2007 return.

Line 12—Enter the 2008 LLET overpayment from Part I, Line 14 credited to the 2008 income tax.

Line 13—If Line 8 is greater than the total of Lines 9 through 12, enter the difference on this line and on the tax payment summary.

Line 14—If Line 8 is less than the total of Lines 9 through 12, enter the difference on this line.

Line 15—Enter the portion of Line 14 to be credited to 2008 LLET on Part I, Line 11.

Line 16—Enter the portion of Line 14 to be credited to 2009.

Line 17—Enter the portion of Line 14 to be refunded (Line 14 less Lines 15 and 16).

Tax Payment Summary

The payment submitted with Form 720 must be itemized. Enter the amount of LLET payment from Part I, Line 12 and/or corporation income tax payment from Part III, Line 13 on the applicable tax payment lines in addition to its respective amount of penalties and interest. Subtotal each and enter the total payment on the Total Payment line.

 **Signature**—Form 720 must be signed by an authorized corporate officer. Failure by corporate officers to sign the return, to complete all applicable lines on any required Kentucky form, to attach all applicable schedules including copies of federal forms, or to complete all information on the questionnaire will delay the processing of tax returns and may result in the assessment of penalties.

Tax Credit Summary Schedule—Schedule TCS

Schedule TCS is used by corporations and limited liability pass-through entities to apply tax credits for entities subject to the corporation income tax imposed under KRS 141.040 and/or the limited liability entity tax (LLET) imposed under KRS 141.0401. The amount of tax credit against each tax can be different. *Taxpayer* as used in this section refers to corporations and limited liability pass-through entities.

Economic Development Tax Credits—This section is completed only if the taxpayer has been approved for one or more of the credits authorized by the Kentucky Rural Economic Development Act (KREDA—KRS 154.22), the Kentucky Jobs Development Act (KJDA—KRS 154.24), the Kentucky Industrial Revitalization Act (KIRA—KRS 154.26), the Kentucky Industrial Development Act (KIDA—KRS 154.28), the Kentucky Economic Opportunity Zone (KEOZ—KRS 154.23), the Skills Training Investment Credit Act (STICA—KRS 154.12–2084 to 2089), the Kentucky Reinvestment Act (KRA—KRS 154.34), or the Kentucky Jobs Retention Agreement (KJRA—KRS 154.25). **If an amount is entered, the return and applicable schedules must be mailed to Economic Tax Credits, Tax Credits Section, Department of Revenue, P.O. Box 181, Frankfort, KY 40602-0181.**

To qualify for the KREDA, KJDA, KIRA, KIDA, KEOZ, KRA or KJRA credits, the taxpayer must be approved by the Kentucky Economic Development Finance Authority (KEDFA) and have executed and activated the appropriate agreement with KEDFA. Form(s) and instructions for the computation of the credit(s) will be mailed to the approved taxpayer. To claim any of these credits, the applicable tax credit schedule must be attached.

To claim the STICA credit, a copy of the final authorizing resolution received from the Bluegrass State Skills Corporation reflecting the amount of credit awarded must be attached. The credit shall be claimed on the income tax return filed for the taxable year during which the final authorizing resolution is adopted by the Bluegrass State Skills Corporation. If the amount of the credit exceeds the income tax liability for the taxable year during which the final authorizing resolution is adopted by the Bluegrass State Skills Corporation, the excess may be carried forward for three successive years. If the credit claimed is being carried forward from a prior year, attach a schedule reflecting the computation of the amount of credit available to be carried forward in addition to the final authorizing resolution from the Bluegrass State Skills Corporation.

Economic development credits are allowed against the taxes imposed by KRS 141.040 and KRS 141.0401.

Information regarding the approval process for these credits may be obtained from the Cabinet for Economic Development, Department of Financial Incentives at (502) 564-4554.

Historic Preservation Restoration Tax Credit—This credit is allowed only if the taxpayer has been approved for the credit by the Kentucky Heritage Council. Credit is allowed against the taxes imposed by KRS 141.020, KRS 141.040, KRS 141.0401 and KRS 136.505 for qualified rehabilitation expenses on certified historic structures. Information regarding this credit is at www.heritage.ky.gov. **KRS 171.397**

Unemployment Tax Credit—If a taxpayer has hired a Kentucky resident classified as unemployed for at least 60 days and the resident remains in the employ of the taxpayer for 180 consecutive days during the tax year (a qualified person), the taxpayer may be entitled to the unemployment tax credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. For each qualified person, a one-time nonrefundable credit of \$100 may be claimed. The period of unemployment must be certified by the Education Cabinet, Department of Workforce Investment, Office of Employment and Training, Frankfort, KY, and a copy of the certification must be maintained by the taxpayer.

For certification questions, call (502) 564-7456. Schedule UTC must be attached to the return claiming this credit. **KRS 141.065**

Recycling/Composting Tax Credit—A taxpayer, which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste materials, may be entitled to a nonrefundable credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401 in an amount equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on Schedule RC, and a copy of the schedule reflecting the amount of credit approved by the Department of Revenue must be attached to the tax return on which the credit is claimed. The amount of this credit claimed for the tax year may not exceed 25 percent of the tax liability and cannot exceed 10 percent of the credit approved in the first year of eligibility.

For taxable years beginning after December 31, 2004, a taxpayer which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste material that qualifies as a Major Recycling Project is entitled to a nonrefundable credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. The credit is an amount equal to 50 percent of the installed cost of the recycling or composting equipment limited to: 50 percent of the excess of the total of each tax liability over the baseline tax liability of the taxpayer or \$2,500,000. To qualify, the taxpayer must: (1) invest more than \$10,000,000 in recycling or composting equipment to be used exclusively in this state; (2) have more than 750 full-time employees with an average hourly wage of more than 300 percent of the federal minimum wage; and (3) have plant and equipment with a total cost of more than \$500,000,000. Application for this credit must be made on Schedule RC, and a copy of the schedule reflecting the amount of credit approved by the Department of Revenue must be attached to the tax return on which the credit is claimed. The credit is limited to a period of 10 years commencing with the approval of the recycling credit application.

A taxpayer is entitled to claim the recycling credits in KRS 141.390(a) and (b) but cannot claim both for the same recycling and/or composting equipment.

Enter the amount of additional recycling credit allowed from Schedule RC-R, Disposition of Recycling or Composting Equipment, Line 10. **Schedule RC-R must be attached. KRS 141.390**

Coal Conversion Tax Credit—A corporation which converts boilers from other fuels to the use of Kentucky coal or which substitutes Kentucky coal for other fuels in a boiler capable of burning coal and other fuels to produce energy for specific purposes may be entitled to a credit against the taxes imposed by KRS 141.040 and KRS 141.0401 equal to 4.5 percent of expenditures for Kentucky coal (less transportation costs). Unused portions of this credit may not be carried forward or back. Schedule CC must be attached to the tax return claiming this credit. **KRS 141.041**

Enterprise Zone Tax Credit—The last enterprise zone expired on December 31, 2007. Previous year carryforwards are allowed for the enterprise zones that previously expired. **Schedule EZC must be attached. KRS 154.45-090**

Kentucky Investment Fund Tax Credit—A taxpayer which makes a cash contribution to an investment fund approved by KEDFA in accordance with KRS 154.20-250 to 154.20-284 is entitled to a nonrefundable credit equal to 40 percent of the investor's proportional ownership share of all qualified investments made by its investment fund and verified by the authority. The credit may be applied against the taxes imposed by KRS 141.020, KRS 141.040, KRS 141.0401, KRS 136.320, KRS 136.300, KRS 136.310, KRS 136.505 and KRS 304.3-270. **A copy of the notification from KEDFA reflecting the amount of credit granted and the year in which the credit may first be claimed must be attached to the tax return claiming this credit.**

The tax credit amount that may be claimed by an investor in any tax year shall not exceed 50 percent of the initial aggregate credit amount approved by the authority for the investment fund which is proportionally available to the investor. **Example:** *An investor with a 10 percent investment in a fund which has been approved for a total credit to all investors of \$400,000 is limited to \$20,000 maximum credit in any given year (\$400,000 x 10% x 50%).*

If the amount of credit that may be claimed in any tax year exceeds the tax liabilities, the excess credit may be carried forward, but the carryforward of any excess tax credit shall not increase the limitation that may be claimed in any tax year. Any credit not used in 15 years, including the year in which the credit may first be claimed, shall be lost.

Information regarding the approval process for these credits may be obtained from the Cabinet for Economic Development, Department of Financial Incentives at (502) 564-4554.

Coal Incentive Tax Credit—Effective for tax returns filed after July 15, 2001, an electric power company or a company that owns and operates a coal-fired electric generating plant may be entitled to a coal incentive tax credit first against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401 and then against tax imposed by KRS 136.120. Application for this credit is made on Schedule CI, Application for Coal Incentive Tax Credit, and a copy of the credit certificate issued by the Kentucky Department of Revenue must be attached to the tax return on which the credit is claimed. **KRS 141.0405**

Qualified Research Facility Tax Credit—A taxpayer is entitled to a credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401 of 5 percent of the qualified costs of construction, remodeling, expanding and equipping facilities in Kentucky for "qualified research." Any unused credit may be carried forward 10 years. Schedule QR, Qualified Research Facility Tax Credit, must be attached to the tax return on which this credit is claimed. Federal Form 6765, Credit for Increasing Research Activities, must also be attached if applicable. See instructions for Schedule QR for more information regarding this credit. **KRS 141.395**

GED Incentive Tax Credit—A taxpayer is entitled to a credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. The credit reflected on this line must equal the sum of the credits reflected on the attached GED-Incentive Program Final Reports. This credit may be claimed only in the year during which the learning contract was completed and unused portions of the credit may not be carried forward or back. For information regarding the program, contact the Education Cabinet, Kentucky Adult Education, Council on Postsecondary Education at (502) 573-5114. The GED-Incentive Program Final Report (DAEL-31) for each employee that completed a learning contract during the tax year must be attached to the tax return claiming the credit. **KRS 151B.127**

Voluntary Environmental Remediation Tax Credit (Brownfield)—The taxpayer must have an agreed order and be approved by the Environmental and Public Protection Cabinet under the

provisions of KRS 224.01-518. Maximum allowed to be claimed per taxable year is 25 percent of the approved credit. This credit may be claimed against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. For more information regarding credit for voluntary environmental remediation property, contact the Environmental and Public Protection Cabinet, Division of Compliance Assistance at (800) 926-8111. Schedule VERB must be attached to the tax return claiming this credit. **KRS 141.418**

Biodiesel Tax Credit—The 2007 Second Extraordinary Session amended 141.422 to include renewable diesel to be subject to the biodiesel tax credit. Producers and blenders of biodiesel and producers of renewable diesel are entitled to a tax credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. The taxpayer must file a claim for biodiesel credit with the Department of Revenue by January 15 each year for biodiesel produced or blended and the renewable diesel produced in the previous calendar year. The department shall issue a credit certification (Schedule BIO) to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit. **KRS 141.423 and Regulation 103 KAR 15:140**

Environmental Stewardship Tax Credit—For tax years beginning on or after January 1, 2006, an approved company may be entitled to a credit against the taxes imposed by KRS 141.020, KRS 141.040 or KRS 141.0401 on the income and the LLET of the approved company generated by or arising out of a project as determined under KRS 154.48-020. An "environmental stewardship product" means any new manufactured product or substantially improved existing manufactured product that has a lesser or reduced adverse effect on human health and the environment or provides for improvement to human health and the environment when compared with existing products or competing products that serve the same purpose. A company must have eligible costs of at least \$5 million and within six months after the activation date, the approved company compensates a minimum of 90 percent of its full-time employees whose jobs were created or retained with base salary wages equal to either: (1) 75 percent of the average hourly wage for the commonwealth; or (2) 75 percent of the average hourly wage for the county in which the project is to be undertaken. The maximum amount of negotiated inducement that can be claimed by a company for any single tax year may be up to 25 percent of the authorized inducement. The agreement shall expire on the earlier of the date the approved company has received inducements equal to the approved costs of its project, or 10 years from the activation date. For more information, contact the Cabinet for Economic Development, Department of Financial Incentives at (502) 564-4554. **KRS 154.48**

Caution: An approved company under the Environmental Stewardship Act shall not be entitled to the recycling credit provided under the provisions of KRS 141.390 for equipment used in the production of an environmental stewardship project.

Clean Coal Incentive Tax Credit—Effective for tax years ending on or after December 31, 2006, a nonrefundable, nontransferable credit against the taxes imposed by KRS 136.120, KRS 141.020, KRS 141.040 or KRS 141.0401 shall be allowed for a clean coal facility. As provided by KRS 141.428, a clean coal facility means an electric generation facility beginning commercial operation on or after January 1, 2005, at a cost greater than \$150 million that is located in the Commonwealth of Kentucky and is certified by the Environmental and Public Protection Cabinet as reducing emissions of pollutants released during generation of electricity through the use of clean coal equipment and technologies. The amount of the credit shall be \$2 per ton of eligible coal purchased that is used to generate electric power at a certified clean coal facility, except that no credit shall be allowed if the eligible coal has been used to generate a credit under KRS 141.0405 for the taxpayer, parent or subsidiary. **KRS 141.428**

Ethanol Tax Credit—Producers of ethanol are entitled to a tax credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. The taxpayer must file a claim for ethanol credit with the Department of Revenue by January 15 each year for ethanol produced in the previous calendar year. The department shall issue a credit certification (Schedule ETH) to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit. **KRS 141.4242**

Cellulosic Ethanol Tax Credit—Producers of cellulosic ethanol are entitled to a tax credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. The taxpayer must file a claim for ethanol credit with the Department of Revenue by January 15 each year for cellulosic ethanol produced in the previous calendar year. The department shall issue a credit certification (Schedule CELL) to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit. **KRS 141.4244**

TAXPAYER ASSISTANCE

Forms:

Operations and Support Services Branches
501 High Street
Frankfort, KY 40620
(502) 564-3658



Web site: www.revenue.ky.gov
E-mail: Financerevenueformsandenvelopes@ky.gov

Information:

Division of Corporation Tax
Department of Revenue
P.O. Box 1302
Frankfort, KY 40602-1302



Department of Revenue
501 High Street
Frankfort, KY 40620
(502) 564-8139

KENTUCKY TAXPAYER SERVICE CENTERS

Information and forms are available from Kentucky Taxpayer Service Centers in the following cities.

Ashland, 134 Sixteenth Street, 41101-7670
(606) 920-2037

Bowling Green, 201 West Professional Park Court, 42104-3278
(270) 746-7470

Central Kentucky, 501 High Street, Frankfort, 40620
(502) 564-4581 (*Taxpayer Assistance*)

Corbin, 15100 North US 25E, Suite 2, 40701-6188
(606) 528-3322

Hopkinsville, 181 Hammond Drive, 42240-7926
(270) 889-6521

Louisville, 620 South Third Street
Suite 102, 40202-2446
(502) 595-4512

Northern Kentucky, Turfway Ridge Office Park
7310 Turfway Road, Suite 190
Florence, 41042-4871
(859) 371-9049

Owensboro, 311 West Second Street, 42301-0734
(270) 687-7301

Paducah, Clark Business Complex, Suite G
2928 Park Avenue, 42001-4024
(270) 575-7148

Pikeville, Uniplex Center, Suite 203
126 Trivette Drive, 41501-1275
(606) 433-7675

TANGIBLE PERSONAL PROPERTY TAXES—The listing period for tangible personal property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting his tangible personal property subject to ad valorem taxation. The Tangible Personal Property Tax Return, Revenue Form 62A500, and instructions can be obtained from your local county property valuation administrator’s office or the Office of Property Valuation. You may also go to **www.revenue.ky.gov** to download these forms. A separate form must be filed for each location in Kentucky where you have tangible personal property.

**Kentucky Department of Revenue
Mission Statement**

As part of the Finance and Administration Cabinet, the mission of the Kentucky Department of Revenue is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the Commonwealth and its citizens.

* * * * *

The Kentucky Department of Revenue does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.



YOUR RIGHTS AS A KENTUCKY TAXPAYER

As part of the Finance and Administration Cabinet, the mission of the Kentucky Department of Revenue (DOR) is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the Commonwealth and its citizens.

As a Kentucky taxpayer, you have the right to expect the DOR to honor its mission and uphold your rights every time you contact or are contacted by the DOR.

Some Kentucky taxpayer rights are very specific, such as when and how to protest an assessment or the denial of a refund or credit. Others are more general.

The following is a summary of your rights and the DOR's responsibilities to you as a Kentucky taxpayer.

RIGHTS OF TAXPAYER

Privacy

You have the right to privacy with regard to information you provide pertaining to returns, reports, or the affairs of your business.

Assistance

You have the right to advice and assistance from the DOR in complying with state tax laws.

Explanation

You have the right to a clear and concise explanation of:

- ✓ basis of assessment of additional taxes, interest and penalties, or the denial or reduction of any refund or credit claim;
- ✓ procedure for protest and appeal of a determination of the DOR; and
- ✓ tax laws and changes in tax laws so that you can comply with the law.

Protest and Appeal

You have the right to protest and appeal a determination of the DOR if you disagree with an assessment of tax or penalty, reduction or a denial of a refund, a revocation of a license or permit, or other determination made by the DOR. (See reverse for procedure to file a protest.)

Conference

You have the right to a conference to discuss a tax matter.

Representation

You have the right to representation by your authorized agent (attorney, accountant or other person) in any hearing or conference with the DOR. You have the right to be informed of this right prior to the conference or hearing. If you intend for your representative to attend the conference or hearing in your place, you may be required to give your representative a power of attorney before the DOR can discuss tax matters with your authorized agent.

Recordings

You have the right to make an audio recording of any meeting, conference, or hearing with the DOR. The DOR has the right to make an audio recording, if you are notified in writing in advance or if you make a recording. You have the right to receive a copy of the recording.

Consideration

You have the right to consideration of:

- ✓ waiver of penalties or collection fees if "reasonable cause" for reduction or waiver is given ("reasonable cause" is defined in KRS 131.010(9) as: "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the department pursuant to law or administrative regulation");
- ✓ installment payments of delinquent taxes, interest and penalties;
- ✓ waiver of interest and penalties, but not taxes, resulting from incorrect written advice from the DOR if all facts were given and the law did not change or the courts did not issue a ruling to the contrary;
- ✓ extension of time for filing reports or returns; and
- ✓ payment of charges incurred resulting from an erroneous filing of a lien or levy by the DOR.

Guarantee

You have the right to a guarantee that DOR employees are not paid, evaluated or promoted based on taxes assessed or collected, or a tax assessment or collection quota or goal imposed or suggested.

Damages

You have the right to file a claim for actual and direct monetary damages with the Kentucky Board of Claims if a DOR employee willfully, recklessly and intentionally disregards your rights as a Kentucky taxpayer.

Interest

You may have the right to receive interest on an overpayment of tax.

DEPARTMENT OF REVENUE RESPONSIBILITIES

The DOR has the responsibility to:

- ✓ perform audits, conduct conferences and hearings with you at reasonable times and places;
- ✓ authorize, require or conduct an investigation or surveillance of you only if it relates to a tax matter;
- ✓ make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- ✓ conduct educational and informational programs to help you understand and comply with the laws;
- ✓ publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the DOR;
- ✓ notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;
- ✓ advise you of procedures, remedies and your rights and obligations with an original notice of audit or when an original notice of tax due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked or canceled;



- ✓ notify you in writing prior to termination or modification of a payment agreement;
- ✓ furnish copies of the agent's audit workpapers and a written narrative explaining the reason(s) for the assessment; 
- ✓ resolve tax controversies on a fair and equitable basis at the administrative level whenever possible; and
- ✓ notify you in writing at your last known address at least 60 days prior to publishing your name on a list of delinquent taxpayers for which a tax or judgment lien has been filed.

PROTEST AND APPEAL PROCEDURE

Protest

If you receive a notice of assessment, a Notice of Tax Due for tax or penalty or if the DOR notifies you that a tax refund or credit has been reduced or denied, a license or permit revoked or denied, or other determination made by the DOR, you have the right to protest. To do so:

- ✓ submit a written protest within 45 days of the original Notice of Tax Due, notice of refund reduction or denial, revocation or denial of a license or permit, or other DOR determination;
- ✓ identify the type of tax involved and give the account number, Social Security number or other identification number and attach a copy of the DOR notice of determination to support that protest is timely;
- ✓ explain why you disagree;
- ✓ attach any proof or documentation available to support your protest or request additional time to support your protest;
- ✓ sign your statement, include your daytime telephone number and mailing address; and
- ✓ mail to the Kentucky Department of Revenue, Frankfort, Kentucky 40620. 

Conference

You have the right to request a conference to discuss the issue.

Final Ruling

If you do not want to have a conference or if the conference did not resolve your protest, you have the right to request a final ruling of the DOR so that you can appeal your case further.

Appeal

If you do not agree with the DOR's final ruling, you can file a written appeal with the Kentucky Board of Tax Appeals. If you do not agree with the decision of the Kentucky Board of Tax Appeals, you have the right to appeal their ruling to the Kentucky courts (first to the circuit court in your home county or in Franklin County, then to the Kentucky Court of Appeals, and finally to the Kentucky Supreme Court). 

NOTE: The above protest and appeal procedures do not apply for real property which is valued by the local property valuation administrator (PVA). Contact the local PVA for information about how to appeal the valuation of real property.

TAXPAYER OMBUDSMAN

The DOR has a Taxpayer Ombudsman whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the Ombudsman is to ensure that your rights as a Kentucky taxpayer are protected.

Also, an important function of the Taxpayer Ombudsman is to confer with DOR employees when you have a problem or conflict that you have been unable to resolve. However, it is not the role of the Ombudsman to intercede in an audit, handle a protest, waive taxes, penalty or interest, or answer technical tax questions. To file a protest, see PROTEST AND APPEAL PROCEDURE. Please do not mail your protest to the Ombudsman.

The Taxpayer Ombudsman is your advocate and is there to make sure your rights are protected. If you think you are not being treated fairly or if you have a problem or complaint, please contact the Ombudsman for assistance.

The Taxpayer Ombudsman may be contacted by telephone at (502) 564-7822 (between 8:00 a.m. and 5:00 p.m. weekdays). The mailing address is: Department of Revenue, Taxpayer Ombudsman, P. O. Box 930, Frankfort, Kentucky 40602-0930.

WHERE TO GET ASSISTANCE

The DOR has offices in Frankfort and taxpayer service centers in nine cities and towns throughout Kentucky. DOR employees in the service centers answer tax questions and provide assistance. You may obtain assistance by contacting any of the following:

Ashland Taxpayer Service Center

134 Sixteenth Street, 41101-7670
(606) 920-2037

Bowling Green Taxpayer Service Center

201 West Professional Park Court, 42104-3278
(270) 746-7470

Central Kentucky Taxpayer Service Center

501 High Street
Frankfort 40620
(502) 564-4581 (*Taxpayer Assistance*)

Corbin Taxpayer Service Center

15100 North US25E, Suite 2, 40701-6188
(606) 528-3322

Hopkinsville Taxpayer Service Center

181 Hammond Drive, 42240-7926
(270) 889-6521

Louisville Taxpayer Service Center

600 West Cedar Street, 2nd Floor West, 40202-2310
(502) 595-4512

Northern Kentucky Taxpayer Service Center

Turfway Ridge Office Park
7310 Turfway Road, Suite 190
Florence 41042-4871
(859) 371-9049

Owensboro Taxpayer Service Center

311 West 2nd Street, 42301-0734
(270) 687-7301

Paducah Taxpayer Service Center

Clark Business Complex, Suite G
2928 Park Avenue, 42001-4024
(270) 575-7148

Pikeville Taxpayer Service Center

Uniplex Center, 126 Trivette Drive, Suite 203, 41501-1275
(606) 433-7675

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The DOR has an online taxpayer service center where you can download forms, publications, and obtain general information about the department. The address is www.revenue.ky.gov.

The information in this brochure merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Department of Revenue. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041-131.081. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.183, 131.500, 131.654, 133.120, 133.130, 134.580 and 134.590.

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Commonwealth of Kentucky
DEPARTMENT OF REVENUE

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